

25th January 2021

CMP – ₹2366.2/-

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Quarterly Result Highlights

- **Strong revenue growth along with EBIT Margins** – LTTS reported Q3FY21 revenues of USD190mn, growth of 6.6% QoQ in constant currency terms (5.1% QoQ in organic terms) better than our expectations of 5.0% growth QoQ. All five industry segments grew sequentially, with three segments recording growth of 5% plus. EBIT margins improve 150bps QoQ to 15.2%. Margins were helped by higher utilization, high off shoring, and cost efficiencies offset by variable pay, higher sub cons and earn out provisions for Orchestra acquisition. Tailwinds include Utilization, Efficiencies with pyramid, productivity, increase margins in telecom, growth in high margin verticals like Medical, Industrial Products and Plant Engineering. Headwinds include wage hikes, onsite localization, sub contractors. LTTS upgraded its FY21 revenue growth guidance to -6.5% YoY decline from the earlier 7-8% decline; implied Q4FY21 growth rate of +3.3% QoQ. Management aspires to take EBIT margin to 17% in CC basis.
- **Growth momentum is expected to continue** – Revenue from top 10 client grew by 3.0% QoQ in USD terms while revenue excluding top 10 clients increased by 8.3% QoQ. Headcount increased by 1.1% QoQ to 16,069. Attrition reduced 10 bps QoQ to 10.7%. In 20mn+/10mn+/5mn+ clients bucket no. of client reduced by 1/2/3 sequentially. Utilization including trainees increased further to 77.5%, up 210bps QoQ. The company has upgraded FY21 revenue guidance to 6.5% from 7-8% decline in USD terms; increase of 100 bps. The guidance builds in 3% QoQ growth in Q4FY21. Overall, company expects growth momentum to continue helped by steady order bookings and a healthy pipeline across all segments.
- **Double digit growth in Telecom & Hi-Tech** – Growth was driven by double digit growth in Telecom & Hi-tech (+14.3% QoQ in USD terms) followed by Plant Engineering (+9.2%), Industrial Products (+5.5%), Transportation (+3.1%) and Medical Devices (+2.4%). Growth was across geographies except RoW, down 9.2% QoQ in USD terms. India was +9.1% QoQ followed by North America, + 8.8% and Europe + 7.5%.
- **Transportation: +3.1% QoQ** – Auto, Off highway and Defense segments are growing. Commercial Aero segment is still challenging. Spending is strong in Electric, Autonomous, Connected space. Signed 3 deals >\$10mn; mgmt sees multiple deals in pipeline with momentum is picking up from Q2FY21.
- **Plant Engineering: +9.0% QoQ** – Growth driven by FMCG and Chemical sub segments – Brown field plant expansions, automation of plants. Signed \$100mn+ deal from O&G major which will ramp up in Feb or March. See large deal wins in pipeline.
- **Industrial Products: +5.7% QoQ** – Demand is driven by smart products, value engineering, cyber security and test automation, alternative energy sources – Wind and Solar. 3 large deals signed in Q3FY21; additional deals in pipeline; Management expects growth to continue.
- **Medical Devices: +2.8% QoQ** – Elective surgeries have been pushed back leading to some softness. Spend areas include regulatory compliance, digital design etc. 2 large deals in Q3FY21; (OEM deal); Good deal and growth to bounce back.

Important Statistics

M.CAP (₹ bn)	₹249.11
52 Week H/L (₹)	2780/995
NSE Code	LTTS
BSE Code	540115

Financials

Particulars	(₹ mn)			
	FY18	FY19	FY20	9MFY21
Revenue	37,471	50,783	56,192	40,092
EBIT	4,923	8,803	9,276	5,500
<i>EBIT Margin (%)</i>	<i>13.1</i>	<i>15.9</i>	<i>19.8</i>	<i>13.7</i>
Net Profit	5,072	7,700	8,224	4,697
EPS (₹)	49.5	72.7	78.5	44.8
RoNW (%)	29.6	34.8	32.2	
RoCE (%)	27.4	45.2	42.2	
P/E(x)	47.8	32.5	30.1	

Source: Company Filing, Way2wealth Research

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- **Communications: +14.3% QoQ** – Q3FY21 also included contribution from Orchestra deal (3.7% QoQ growth organically). Within Semiconductors - Deal pipeline in 5G, AI chip design, In Telecom – participating in network virtualization. Won 1 large deal; Working in 5G and Semi deal pipeline.
- **Large Deals** – bookings were the highest ever, helped by the marquee USD100mn+ plus deal we signed in the Plant Engineering segment. Deal wins were strong in the quarter with 7 deals having TCV of USD 10mn+ which includes the USD100mn+ deal and 2 USD15mn+ deals. Q3FY21 TCV is double of Q2FY21; Management continues to see decision making at pre-COVID levels. The management is taking notice of the lockdowns in Europe and Japan. Management expects growth to continue.
- **\$100mn+ deal in Oil & Gas Sector** – Downstream (for Refinery) – Taken over two biggest plants of the customer. If successful, this can be taken to multiple refineries of the same customer. Centre in India + onsite; Customer decided to switch from US vendor due to cost pressure. Management mentioned that there are no major investments which will impact margin for this deal.
- **Demand Outlook** – Management is seeing ER&D spends back coming back in all areas except Commercial Aerospace. Spending areas include digital Engineering as well as legacy engineering. Deal decision making at is happening at a faster pace.

View

LTTS continues (*Report*) to be a value BUY with its ability to win large deals and its diversified profile enabling it to mitigate weakness in any segment, through growth in others considering its engineering expertise. The company is likely to show 10-12% growth in the near to medium term as the sector continues to appear attractive from a long-term perspective, based on strong fundamentals and accelerated digital adoption. Recent appreciation of USD/ INR and possible rise in US corporate taxes are to be watched out for. Overall, business appears to be recovering fast, as is visible in the strong broad-based growth, deal flow and pipeline with customers prioritising business transformation to improve efficiency and productivity.

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Quarterly Performance

(₹ mn)

Particulars	Q3FY21	Q3FY20	% Change	Q2FY21	% Change
Revenue (US\$ mn)	190	199	(4.6)	178	6.8
Revenue	14,007	14,230	(1.6)	13,138	6.6
EBIT	2,132	2,391	(10.8)	1,801	18.4
EBIT Margin (%)	15.2	16.8		13.7	
Net profit	1,861	2,041	(8.8)	1,655	12.4
EPS (₹)	17.6	19.3	(8.8)	15.7	12.4

Source: Company Filing, Way2wealth Research

(₹ mn)

Particulars	Q2FY21	Q2FY20	% Change	Q1FY21	% Change
Revenue (US\$ mn)	178	198	(10.1)	171	4.1
Revenue	13,138	14,021	(6.3)	12,947	1.5
EBIT	1,801	2,388	(24.6)	1,567	14.9
EBIT Margin (%)	13.7	17.0		12.1	
Net profit	1,655	2,059	(19.6)	1,181	40.1
EPS (₹)	15.7	19.5	(19.6)	11.1	40.1

Source: Company Filing, Way2wealth Research

Particulars (₹ mn)	Q1FY21	Q4FY20	% Change	Q1FY20	% Change
Revenue (US\$ mn)	171	195	(12.3)	194	(11.9)
Revenues	12,947	14,466	(10.5)	13,475	(3.9)
EBIT	1,567	2,198	(28.7)	2,299	(31.8)
EBIT Margin (%)	12.1	15.2		17.1	
Net profit	1,181	2,064	(42.8)	2,040	(42.1)
EPS (₹)	11.1	19.3	(42.8)	19.3	(42.1)

Source: Company Data, Way2Wealth Inst Equity

Vertical mix Revenues (%)

(₹ mn)

Verticals	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Transportation	32.9	34.9	35	35.8	35.7	31.5	31.5	30.4
Industrial Products	19.3	19.6	19.4	19.2	19.4	19.4	19.5	19.3
Telecom & Hi-tech	26.2	22.2	20.6	18.4	18.7	22.4	21.4	22.9
Process Industry	14.7	15.3	16.2	17.2	16	13.8	14.4	14.7
Medical Devices	6.7	8.0	8.8	9.4	10.3	12.8	13.2	12.7

Source: Company Data, Way2Wealth Inst Equity

Geography wise Break up (%)

Region	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
North America	58.9	60.9	61.7	61.2	61.2	61.2	60.0	61.2
Europe	16	15.6	14.4	14.1	16.7	16.0	16.0	16.1
India	13.9	12.8	13.1	13.2	12.8	13	13.6	13.9
Rest of the World	11.2	10.7	10.7	11.4	9.2	9.8	10.4	8.8

Source: Company Data, Way2Wealth Inst Equity

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Client composition (%)

Clients	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Top 5	26.4	24.7	22.9	21.1	19.2	17.8	17.0	16.3
Top 10	37.7	36.7	35.7	33.9	31.8	29.7	28.3	27.3
Top 20	53.5	52.5	51.3	49.8	48.5	46.8	44.9	44.0
Beyond top 20	46.5	47.5	48.7	50.2	51.5	53.2	55.1	56.0

Source: Company Data, Way2Wealth Inst Equity

Client data	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Number of Active Clients	251	258	258	265	270	270	283	296
More than 50m USD	2	1	1	-	-	-	-	-
More than 30 mn USD	3	3	3	3	2	1	1	1
More than 20 mn USD	5	5	5	7	8	4	5	4
More than 10 mn USD	16	17	17	20	21	22	20	18
More than 5 mn USD	41	44	44	43	43	43	44	41
More than 1 mn USD	106	110	110	107	113	113	116	118

Source: Company Data, Way2Wealth Inst Equity

Revenue by Project Type (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Fixed Price	43.6	42.4	41.8	42.7	38.6	38.5	39.7	38.5
Time and Material Contract	57.9	57.6	58.2	57.3	61.4	61.5	60.3	61.5
Revenue Mix (%)								
Onsite	44.8	44.3	43.8	44.0	47.1	48.3	45.1	42.9
Offshore	52.9	55.7	56.2	56.0	52.9	51.7	54.9	57.1
Utilization (%) including Trainees	80.2	79.6	77.8	79.2	78.1	70.9	75.4	77.5

Source: Company Data, Way2Wealth Inst Equity

Employee Statistics	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Total Headcount	15,140	15,913	16,789	16,787	16,883	16,641	15,902	16,069
Billable	14,034	14,755	15,614	15,604	15,667	15,481	14,778	14,975
Sales & Support	1,106	1,158	1,175	1,183	1,216	1,160	1,124	1,094
Voluntary Attrition % (LTM)	14.8	15.8	13.4	13.9	13.8	11.4	10.8	10.7
Net Addition	363	773	876	-2	96	-242	-739	167

Source: Company Data, Way2Wealth Inst Equity

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Name of the Security	L&T Technology Services Ltd
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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